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## Editorial: Proposed new state budget process rightly includes plan to examine efficiency of tax exemptions

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Gov. Jennifer Granholm wants to set up a system for scrutinizing a widening array of tax breaks and loopholes that reduce the revenue stream supporting government operations. That seems like a logical step toward getting the state's fiscal house in order, so long as it isn't used as a backdoor way of boosting taxes.

Some of the write-offs go back 30 years or more with little or no annual review by policymakers, Granholm says. Every year, the Legislature hands out a dozen or more new ones to bolster a struggling industry, such as tool and die, or stimulate a new one, such as advanced auto batteries.

Are all of the tax breaks still accomplishing what they were designed to do? Are some of them obsolete? Those are questions worth answering when the state is struggling with a \$1.6-billion revenue shortfall projected for the new budget year.

The generous business tax rebates Michigan offers filmmakers, as it seeks to build a home-based movie industry, have become a political flash point. Politicians such as Sen. Nancy Cassis, R-Novi, have argued they make little sense and should be limited when the state is having trouble making ends meet.

But the billions in exemptions awarded to other businesses have gotten scant attention from anyone other than the libertarian Mackinac Center for Public Policy, which long has maintained the state's economic strategy instead should focus on lowering taxes for all businesses.

Under reforms the governor has proposed, Michigan would go to a two-year budgeting process, starting in 2011. That would free up lawmakers every other year to take a closer look at how the government is spending its money -- including what it forgoes in tax exemptions.

Tax breaks have become a bigger challenge as Michigan weathers its long recession, according to Mitch Bean, director of the nonpartisan state House Fiscal Agency.

State government collected \$6.8 billion more from taxes and other revenue sources than it gave away in tax breaks in 1999. Ten years later, the lines on Bean's graph have crisscrossed. The state's \$36 billion in tax write-offs exceed its income by more than \$6.3 billion.

The disparity is certain to continue growing as the state battles to replace hundreds of thousands of jobs lost during the 10-year downturn.

Michigan is locked in an intense competition with other states for new job-providers and has little choice but to offer tax breaks as the chief inducement to bring them here.

It's just good business to conduct periodic reviews, make sure those investments are paying off and eliminate the ones that aren't.